If you’re looking to buy a franchise it’s important you decide which franchise to buy based on fact, not emotion.

Many franchisees make the mistake of falling in love with a franchise brand and don’t properly assess whether the franchise opportunity is the right fit for them.

The worst thing a franchisee can do, is to only read the marketing material disseminated by the franchisor and then decide the franchise opportunity sounds like the right fit for them.

Some franchisees may go further in their analysis, yet forget to gain insights off the people that best know what it’s like to be a franchisee in that particular franchise – existing and former franchisees.

Asking the right questions as part of your due diligence

As a key part of your franchise due diligence to better understand what being a franchisee will be like it’s important to also speak to the franchisor, as well as franchisees and former franchisees, and ask lots of questions.

It’s better to have too much information than be ill-informed, so you’ll have less chance of uncovering surprises once you enter the franchise.

As you investigate franchise opportunities you’re likely to have questions of your own, however to help you ask the right types of questions here is a list to get you started from Griffith University’s Asia-Pacific Centre for Franchising Excellence.

What to ask franchisees and former franchisees

Fortunately, as part of Australian franchise regulations, franchisors must provide contact details for existing and former franchisees in the Disclosure Document, so it should be easy for you to get in touch with them.

One question which is always good to ask franchisees is, if they had their time over whether they would still buy the franchise?

For former franchisees you may also like to ask why they are no longer a franchisee and whether their exit from the franchise was a smooth process.

We also recommend you ask questions around the relationship between the franchisor or franchise head office and the franchisee or former franchisee.

Just with any partnership (whether personal or business) how the relationship works is
important and you need to assess whether the likely style of relationship will suit you and your needs.

Other questions to consider include:

• What was your biggest surprise or shock in starting your business?
• How much time do/did you work in the business per week?
• Has/did the business met your income and lifestyle expectations? And in hindsight, were your expectations realistic?
• What are/were the best things about this franchise?
• What are/were the worst things about this franchise?
• Is there anything else you think I should know about this franchise?

What to ask a franchisor

Again, you’re likely to have a range of questions of your own as you explore franchise opportunities, and it’s worth noting that the answers to many of the questions you’re likely to have as you go through the early due diligence process will be included in the franchise Disclosure Document.

Questions, in addition to your own, to ask a franchisor, that you may not automatically think of may be around the franchisor’s long-term plans for the business, both in Australia and internationally, as well as their role within the business and future ownership.

If a franchisor is planning to retire in the foreseeable future, it may change the direction of the franchise and is something you should be aware of.

It may also be of benefit to your due diligence to enquire about the average length of time that employees stay with the franchisor, and in particular field support personnel as they are likely to be your key contact within the franchise head office.

Also on the topic of field support you may like to ask whether the franchisor can provide a typical field support schedule and details of the frequency and nature of support available to franchisees.

It’s also important to ask whether the field support includes time spent with you when your business first opens, and if so, for how long and the type of support provided during that time.

To assist with your business planning you could also ask the franchisor what financial data they can provide you to assist you with putting together a detailed and relevant business plan.

Franchisors are naturally one of the best people to ask about the franchise and they are usually more than happy to answer any questions you may have.

Remember Franchise Agreements are legally binding documents, so it’s important you get all your questions answered before you sign on the dotted line.

Other questions to ask the franchisor:

• What is the average length of time that a franchisee stays in this system?
• What proportion of franchisees who left the system in the last three financial years (the disclosure timeframe outlined in the Code) made a capital gain when they exited the business?
• What franchise and industry-specific training or education has the franchisor and its personnel undertaken in the last 12 months?
• What current and future potential competitive threats might affect the franchise, and what are the franchisor’s plans to combat these?

Further due diligence tips

To assist prospective franchisees with conducting their due diligence effectively, and help ensure people are well-informed about franchising and what to expect as a franchisee, the Asia-Pacific Centre for Franchising Excellence developed a free online pre-entry franchise education program.

The program is funded by the sector regulator, the Australian Competition and Consumer Commission. Further questions to ask as part of your due diligence are included in Module Four of the program.

Find out more on the pre-entry franchise education program at: http://www.franchise.edu.au/pre-entry-franchise-education

Professor Lorelle Frazer is Director of Griffith University’s Asia-Pacific Centre for Franchising Excellence and one of the world’s leading franchise researchers and educators. Lorelle has been actively involved in franchising research and sectoral policy initiatives for more than 15 years. She also lectures in franchising and is a member of the Australian Competition and Consumer Commission Franchising Consultative Panel. Her research is often used to inform sector policy and in 2010 Lorelle was awarded the Franchise Council of Australia’s national Contribution to Franchising Award.

Griffith University’s Asia-Pacific Centre for Franchising Excellence aims to drive franchise sector best practice through practical, independent research and education. To find out more visit:

Web: www.franchise.edu.au

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